

MARCH 2017

TO OUR SHAREHOLDERS



ALEX GORSKY
Chairman and Chief Executive Officer

I've worked in the health care industry for nearly 30 years. It's been both an honor and a privilege to work for Johnson & Johnson, a company that touches the lives of over a billion people every day, around the world. As I look at today's health care landscape, it's incredibly clear that the pace of change has never been greater, or frankly, more exciting.

Today's rapid change brings both opportunities and risks for any company in health care, and we are prepared to address both. There are significant challenges to overcome, but the tools, the insights, the technologies, the innovations – both evolutions and revolutions – all combine to make today one of the most promising times for human health and for Johnson & Johnson.

For over 130 years, our company has been inventing the future of health care. From the beginning, we learned that innovation is seldom the product of a solitary genius.

Rather, true innovations are the result of collaboration. And that collaboration is driven by a diversity of ideas, individuals and disciplines – working together toward a common goal.

Today, more than ever, the world needs leaders who are committed to working together to help bring improved health and wellness to every person in every corner of the globe. As the world's largest and most broadly based health care company, we are uniquely positioned to help transform global health care; to shine a light on the most important issues we are facing; to collaborate across boundaries and borders; to uncover scientific insights and ideas; and to dedicate resources towards creating tomorrow's breakthroughs.

We are united and inspired by Our Credo, which rings as true today as it did when it was written more than 70 years ago. It reminds us that our first responsibility is to our customers and patients, and it

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compels us to deliver on our responsibilities to our employees, our communities, our environment, and our shareholders.

With that strong foundation, we will continue to use our breadth to comprehensively advance human health; invest for enduring, long-term impact; position our businesses to deliver strong, consistent and sustainable results; hold ourselves accountable for our responsibilities; and put people first.

ADVANCING HUMAN HEALTH

We believe having a business that is broadly based in health care has been and will continue to be a major factor in our success. It has allowed us to deliver strong and consistent growth, as well as return significant value to our shareholders, throughout various economic cycles.

Our company's structure also allows us to interconnect our breadth and depth to drive innovation, and to take advantage of growth opportunities wherever they may be across the dynamic health industry. This is particularly important as the industry continues to evolve, and as the political environment poses new challenges and opportunities. In 2016, this was incredibly clear in the emerging area of HealthTech. The potential for the intersection of technology and health care to completely change and disrupt the existing health care ecosystem has never been more imminent. This new HealthTech space is becoming integral to everything that we do, and as the

world's largest and most comprehensive health care company, no one is better positioned than Johnson & Johnson to lead this important work.

In addition to our commitment to advance health comprehensively, we also employ disciplined portfolio management to ensure we are focused on solving the most important medical and consumer health needs, investing in promising future growth areas and that all of our businesses continue meeting our expectations. During 2016, we completed 14 acquisitions or significant licensing deals, as well as eight divestitures, positioning us for continued profitable growth.

Our acquisition of Abbott Medical Optics, which closed in early 2017, is an excellent example of our flexibility to invest in areas of opportunity across the spectrum of health care. Our consumer expertise, particularly in the vision care space, combined with our medical device expertise, made this opportunity uniquely complementary to our portfolio. We are excited about adding a strong and differentiated surgical ophthalmic offering – particularly in cataract surgery – to our vision care business. That, coupled with our world-leading ACUVUE® contact lens business, will help us become a broad-based leader in vision care. This transaction is an excellent example of our approach to acquisitions – it was the right deal, at the right time and at the right price, to drive growth and create value for our shareholders.

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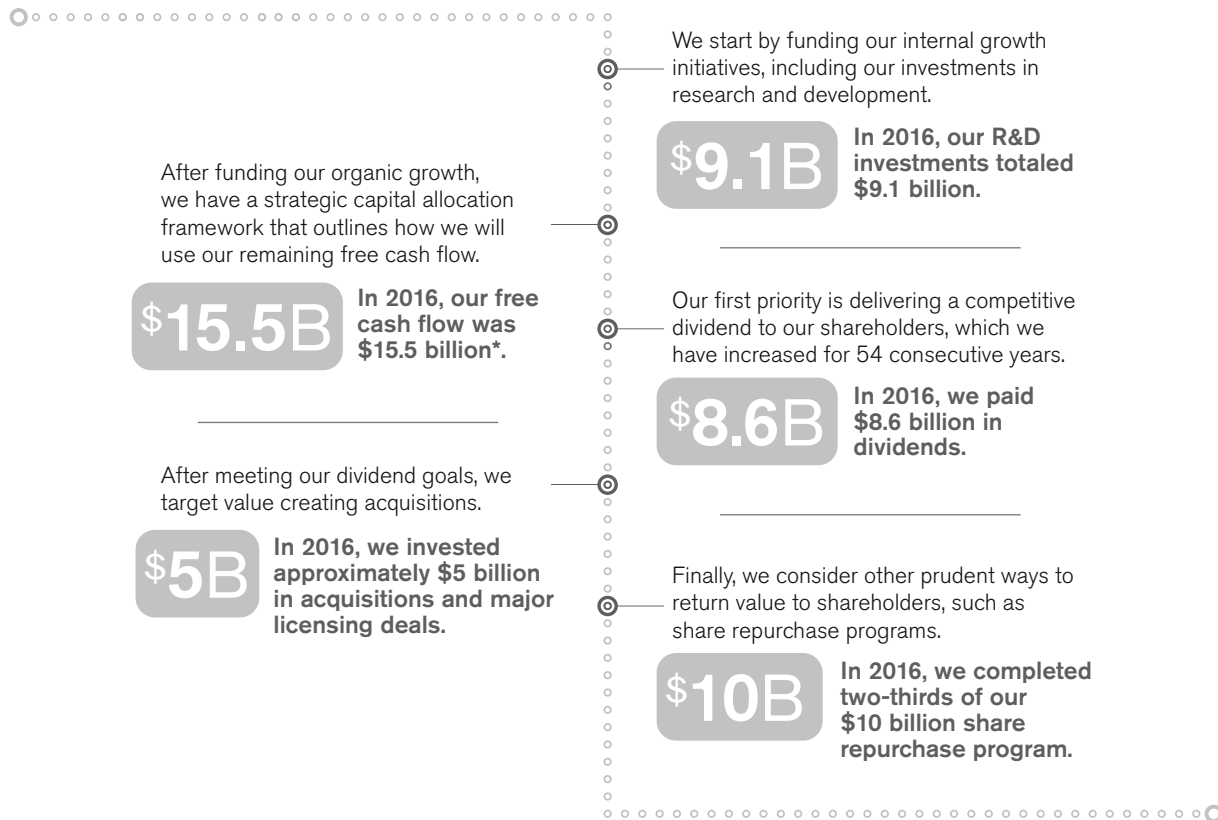
Our broad base across health care and strong global footprint also gives us unique insight and opportunities to work with governments and health care systems around the world to influence investments in health. The volatility that we see in emerging markets, and the health care cost challenges that exist in both developed and emerging markets, clearly demonstrate the importance of advocating for improved access to quality health care, as well as rewards for innovations that drive better outcomes and long-term value. We will continue to be a leading voice in these discussions, advocating for solutions that are in the best interests of the health and wellness of patients and consumers.

INVESTING FOR LONG-TERM GROWTH

In the same way that we are driven to save and improve lives, we have a very clear perspective on the imperatives for our financial performance: our objective is for Johnson & Johnson to grow sales organically at a faster rate than the market, and grow our earnings faster than sales; an objective we met in 2016.

Additionally, our focus on having a strong cash flow ensures we are able to make the appropriate investments in our business, and then capitalize on the right opportunities to create greater long-term value for our shareholders.

OUR BROAD BASE IN HUMAN HEALTH CARE EXTENDS OUR REACH, CAPABILITIES AND STRATEGIC ADVANTAGES FOR PATIENTS, PROVIDERS AND CONSUMERS AROUND THE WORLD.



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Our total shareholder return for 2016 was a strong 15.3%, significantly exceeding our competitor composite, as well as exceeding most major indices, including the S&P 500. This is not only true for 2016, but I'm proud to say it's also the case over the last three, five, ten and twenty year periods. Historically, approximately 70 percent of our free cash flow deployed over the last 10 years has been returned to shareholders in the form of dividends or share repurchases.

Our strong record of total shareholder returns is the result of our approach to managing for the long term, our relentless drive for innovation, our disciplined portfolio management and our capital allocation strategy – all of which are regularly discussed as part of our ongoing strategic planning with our Board of Directors.

**DRIVING STRONG, CONSISTENT,
SUSTAINABLE RESULTS**

As the health care landscape continues to evolve, all three of our business sectors are well-positioned to meet the changing needs of patients and consumers. In terms of our financial performance, we expect each business segment to grow and contribute to our sales and income growth in 2017.

PHARMACEUTICALS

In our Pharmaceuticals business, our priority is to drive continued growth while delivering on our near-term pipeline. We will do this by focusing on our therapeutic areas of high unmet medical need, our robust innovation engine and strong commercial capabilities.

For 2017, we expect our key catalysts for growth will include:

- Continued strong performance of our in-line products – increasing penetration in markets such as anti-coagulants, psoriasis, and long-acting anti-psychotics
- Capitalizing on the early launch success from key products such as DARZALEX[®], IMBRUVICA[®], and STELARA[®] for Crohn's Disease
- Anticipated regulatory approval for two new immunology products, guselkumab and sirukumab, each with greater than \$1 billion in sales potential

Further, we will continue to vigorously defend our patents on REMICADE[®], while remaining competitive against at-risk biosimilar entries, given the product's long track record of efficacy and safety.

We are confident in our robust Pharmaceutical pipeline and will continue working toward our goal of filing 10 new products by 2019, each with at least \$1 billion in potential sales, as well as filing an additional 40 line extensions by 2019, 10 of which have more than \$500 million in potential sales.

In addition, in January 2017 we announced a definitive agreement to acquire Actelion Ltd. for approximately \$30 billion. The transaction is expected to accelerate our near- and long-term revenue and earnings growth rates and be immediately accretive to Johnson & Johnson's adjusted earnings per share**. The acquisition would expand and complement our existing Janssen portfolio with differentiated in-

market medicines for pulmonary arterial hypertension, and reinforces Janssen's already robust late-stage pipeline. The transaction is subject to satisfaction of closing conditions and is expected to close by the end of the second quarter of 2017.

CONSUMER

In our Consumer segment, in the near-term, our priority is to enhance our leadership in priority categories and continue to improve profitability to benchmark levels by focusing on critical geographies and our iconic mega-brands.

Our plans for Consumer growth in 2017 include:

- Continuing to grow faster than the market, and gaining market share across our mega brands
- Bringing innovation to the market, and launching key, science-based new products
- Accelerating the growth from recent acquisitions in our Beauty franchise, including Vogue International with OGX® and PROGANIX® hair care brands
- Continuing to utilize supply chain and operational efficiencies to ensure operating margins are at benchmark levels

MEDICAL DEVICES

Our near-term priority in Medical Devices is to accelerate growth through innovation, portfolio management and new business models. We are driving growth in priority platforms, sustaining leadership in our core platforms, implementing novel commercial models and seeking expansion

opportunities in large, growing markets with significant unmet needs.

Our goal is to return to above market growth by the second half of this year, and we plan to drive that growth through:

- More than doubling the number of new products in 2016, with at least 12 major launches planned for 2017
- Accelerating the impact from strategic acquisitions made in 2016
- Incorporating a suite of holistic, insights-driven capabilities to help health systems navigate value-based care through our CareAdvantage & Orthopaedic Episode-of-Care partnerships
- Continuing progress on the restructuring initiative in our hospital medical device businesses, which is on track to achieve savings of \$800 million to \$1 billion, with the majority expected to be realized by the end of 2018

OUR RESPONSIBILITY

As the world's largest and most broadly-based health care company, we have a unique perspective on the health and wellness needs, wants, hopes and fears of the people whose lives we touch around the world every day.

We will continue providing leadership on the health and wellness issues that we understand better than anyone else. And we will continue reporting on the social and environmental performance of our business through our Citizenship & Sustainability Report, available at www.jnj.com/caring.

In September 2016, in addition to our

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Citizenship & Sustainability 2020 goals, we announced a comprehensive UN Sustainable Development Goals (SDG) commitment focused on five key areas where we are uniquely positioned to create sustainable and scalable impact: Global Disease Challenges, Essential Surgery, Women's & Children's Health, Health Workforce, and Environmental Health. Our SDG vision for 2030 is that by galvanizing partners, mobilizing employees and engaging communities, we will profoundly improve the course of human health.

We are also an industry leader in keeping the patient and consumer at the center of everything we do. In the last few years, we have taken unprecedented steps like creating the Johnson & Johnson Bioethics Committee and the industry's first Compassionate Use Advisory Committee; collaborating to develop massive real world data sets, such as the Observational Health Data Sciences and Informatics (OHDSI); and developing industry-leading clinical trial data transparency through the Yale Open Data Access (YODA) Project.

In the first quarter of 2017, we were also pleased to release the inaugural Janssen U.S. Transparency Report, in which we are disclosing more information about our business practices, including those related to pricing. This report builds on our history of responsible pricing practices and our ongoing efforts to provide more transparency into how we operate. These disclosures are just one way we are continuing to work with others in the

health care system to address the important issue of U.S. health care costs.

We will continue to defend the interests of all of the stakeholders defined in Our Credo: the doctors, nurses and patients; the mothers and fathers and all others who use our products; our employees and suppliers; and the communities in which we live and work. We will also continue to provide positive economic impact wherever we do business, pay our fair share of taxes and deliver a fair return to our shareholders.

PUTTING PEOPLE FIRST

Whether it is a human-centered insight that drives the innovation of a breakthrough product, our advocacy for access to health care, or our humanitarian work treating some of the world's most debilitating diseases, we are committed to always putting people first.

This is also true in how we support our more than 126,000 employees around the world. All of our compelling strategies and strong results would not be possible without our talented, diverse and dedicated employees. Their commitment and passion has helped Johnson & Johnson to be named by top industry and business publications as being among the most admired, most respected, most innovative and best places to work year after year.

For all they do to ensure our success, we believe employers have an opportunity and responsibility, as well as an incentive, to ensure their employees are healthy and engaged. Our goal for 2020 and beyond is

to lead by example, cultivating *the world's healthiest workforce*.

We have a number of programs in place to help us achieve that goal across many facets of our employees' lives. From programs that encourage healthy eating, movement, and resilience; to ensuring the financial health of our employees through competitive compensation programs, Health and Wellness benefits, recognition programs, long-term incentives, and robust retirement plans – including a defined benefit pension plan in the U.S.; as well as supporting healthy families, through programs such as our new parental leave policy, fertility benefits, and global breast milk shipping benefits.

We not only feel that this is the right thing to do, but we also believe these programs help us to achieve our goals of attracting, developing, and retaining the best talent to deliver the best outcomes; positioning us to deliver another 130 years of strong growth and shareholder returns.


**CONFIDENT IN THE FUTURE OF
JOHNSON & JOHNSON**

One of the teachings from our wellness business is the importance of mindfulness

and resilience; and one way to achieve this is through the practice of gratitude. I would like to say how grateful I am to be the Chairman and Chief Executive Officer of Johnson & Johnson. I am grateful for the passion, commitment and unique contributions of our more than 126,000 employees around the world. I am grateful to the billions of health care workers, parents and consumers who place their trust in our products every day. And finally, I am grateful to our Board of Directors and you, our shareholders, for entrusting me with the great responsibility of leading this amazing company. Thank you for your support.

With Our Credo as our inspiration, the strength of our broad base across human health care, and our commitment to delivering strong, consistent, long-term growth, I am incredibly confident in the continued success of Johnson & Johnson.

Sincerely,



Alex Gorsky
Chairman and Chief Executive Officer
Johnson & Johnson

* Non-GAAP measure – Free cash flow is defined as operating cash flow less capital spending (\$18.7 billion - \$3.2 billion = \$15.5 billion)

** Non-GAAP measure; excludes intangible amortization expense and special items

NOTE REGARDING FORWARD-LOOKING STATEMENTS

This letter contains forward-looking statements relating to, among other things, future operating and financial performance, product development, market position and business strategy. The reader is cautioned not to rely on these statements, which are based on current expectations of future events. For important information about these statements, including the risks, uncertainties and other factors that could cause actual results to vary materially from the assumptions, expectations, and projections expressed in any forward-looking statements, the reader should review the enclosed Annual Report on Form 10-K for the fiscal year ended January 1, 2017, including in the sections captioned "Cautionary Note Regarding Forward-Looking Statements" and "Item 1A. Risk Factors". Johnson & Johnson does not undertake to update any forward-looking statement as a result of new information or future events or developments.